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ABSTRACT

The Job Training Partnership Act (JTPA) represents a 6-year experiment in the privatization of public responsibilities that demonstrates that enlisting private energies to serve the public purpose is an appealing but deceptively elusive goal. Although contractors are evaluated and paid by reference to output standards, accountability is difficult to enforce in human capital development. Suppliers are able to meet performance standards without producing real long-term changes in trainees' productivity or employment prospects. Although evaluation has been hampered by limits on data collection and monitoring, mounting evidence shows that (1) the pattern of training is driven more by short-term job placement than long-run payoffs; (2) the small numbers of trainees are selected from among the large number of eligible persons more by the criterion of "job readiness" than by need for training or ability to benefit; and (3) subsidies for on-the-job training are distorted into wage subsidies, with public money buying little or no incremental training. The information and monitoring systems essential to realize the JTPA ideal were rejected as unduly expensive and intrusive. There is little incentive for contractors to concentrate on people who would otherwise remain unemployed and impoverished and no compelling evidence that the JTPA system makes much difference in the pattern of employment, earnings and productivity of the U.S. work force. (51 references.) (CML)

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Shortchanging the Workforce

The Job Training Partnership Act and the Overselling of Privatized Training

John D. Donahue

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Shortchanging the Workforce

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Executive Summary

The Job Training Partnership Act (JTPA) represents a deliberate shift from the "process-based" contracts with mostly public organizations that characterized previous manpower policies to "product-based" contracts with mostly private organizations. Under the new model, government's role has evolved from training workers directly to managing a system of budgets, rules, standards, and incentives within which the (presumably more efficient) private sector does much of the training.

Enlisting private energies to serve the public purpose is an appealing but deceptively elusive goal. And it is increasingly evident that the contractual architecture of JTPA is grossly inadequate to enforce accountability on private suppliers of so subtle and complex a service as human capital development.

Enlisting private energies to serve the public purpose is an appealing but deceptively elusive goal.

Contractors are evaluated and paid by reference to output standards. If these standards accurately reflect the value that contractors produce and embody in trainees, such a contract makes sense. But even an ideal set of contracting and monitoring arrangements would allow some potential for gaps between reported performance and real human capital development. And JTPA's arrangements fall far short of the ideal. Suppliers are able to meet performance standards without producing real long-term changes in trainees' productivity or employment prospects.

Although stringent limits on data collection and monitoring have hampered JTPA evaluation from the start, there is mounting evidence that:

- the pattern of training is driven more by the imperative of short-term job placement than by long-run payoffs;
- short-term placement is, at best, a very feeble proxy for enduring human capital development;
- the small numbers of trainees are selected from among the large number of eligible citizens too little by the criteria of need for training or ability to benefit, and too much by the criterion of pre-existing "job-readiness";
- subsidies meant for on-the-job training are distorted into wage subsidies, with public money buying little or no incremental training.

The heart of JTPA is payment for results. But the information and monitoring systems essential to put such an ideal into effect were rejected as unduly expensive and intrusive. JTPA's contractual provisions, accordingly, are far too loosely drawn, allowing ample opportunity for covert waste and abuse. It is rather as if Medicaid physicians were presented with a large population of patients suffering complaints ranging from tendonitis to brain tumors, invited to choose two or three percent of them for treatment, and paid on the basis of how many were still breathing when they left the hospital.

There is no reason to believe that the Job Training Partnership Act system has made much difference in the employment, earnings, and productive capacity of the American workforce.

Despite grand hopes and good intentions, then, there is no reason to believe that the Job Training Partnership Act system has made much difference in the employment, earnings, and productive capacity of the American workforce.

The Job Training Partnership Act

Academics, pundits, and blue-ribbon commissions, with monotonous regularity, nominate "better job training" as a remedy for social problems as diverse and fundamental as slowing productivity growth, declining international competitiveness, and the deepening misery of America's underclass. At the same time, the continuing standoff between urgent public needs and strained public finances has fed widespread enthusiasm for using (presumptively more efficient) private means to serve public ends. These two themes converge in the Job Training Partnership Act (JTPA), which assigns to the private sector many key functions in federal job-training efforts. JTPA represents a six-year experiment in the privatization of public responsibilities. The central lesson from this experiment is clear, and won .t far too high a fiscal and social cost to ignore: enlisting private energies to serve the public purpose is an appealing but deceptively difficult goal.

JTPA represents a six-year experiment in the privatization of public responsibilities.

JTPA in Context: The Evolution of Federal Training Policy

The JTPA was a financially modest but symbolically potent initiative of the first Reagan Administration. (It was also J. Danforth Quayle's chief achievement in the Senate.) While federal manpower programs go back at least to the New Deal, JTPA's more direct institutional antecedents date from the 1960s. The Area Redevelopment Act of 1961, largely concerned with financing public works projects in depressed regions, included some funds for manpower programs, but job training gained greater prominence with the Manpower Development and Training Act of 1962. This program was inspired by concerns that technological change was bringing about a mismatch between the skills of the American workforce and the requirements of industry—a theme that would recur intermittently throughout the next quarter-century of American manpower policy. Many feared that factory automation would render huge numbers of production workers redundant while straining the supply of technicians. Federal money would subsidize retraining, both in the classroom and on the job, to restore the balance.

By the early 1970s, there was a bewildering array of training, placement assistance, wage subsidy, and public employment programs run by different agencies. . .with varying mandates.

However, economic recovery and a revision in national anxieties quickly led to changes in the training system. By the mid-1960s, it was evident that the unmanned factory was still some distance in the future, and the economy accommodated technologically displaced employees without major disruption. Meanwhile, America discovered poverty. As the War on Poverty got underway, the focus of manpower policy shifted away from workers at risk of displacement from established jobs, and towards Americans who had never found their places in the economic mainstream.

By the early 1970s, there was a bewildering array of training, placement assistance, wage subsidy, and public employment programs run by different agencies, with different divisions of administrative and fiscal responsibility among the federal, state, and local governments as well as private companies, and with varying mandates: remediation for the marginal worker, adjustment for the established worker, manpower development, and countercyclical public-sector job creation. In 1973, most of these were brought together into the Comprehensive Employment and Training Act (CETA).

In 1973, most of these were brought together into the Comprehensive Employment and Training Act (CETA).

The central enterprise of CETA's first year or so was funding local-level classroom and on-the-job training programs. But in response to the 1974 recession, a new title authorizing expanded public employment was added to CETA, and by May 1975, some 300,000 people were put on city and county payrolls with federal money. Early in the Carter Administration, public employment leapt again, reaching its peak in 1978 at 750,000 workers. Between 1975 and 1980 the federal employment and training budget (consisting mostly of CETA programs) surged from less than $5 billion to over $11 billion (Orfield, *et al.*, 1986, pp. 66–69).[1] Spending on *training* programs remained relatively constant; the sharp increase in the manpower budget (and its subsequent shrinkage) was mostly a matter of subsidized jobs (Taggart, 1981, p. 42).

One of the Reagan Administration's earliest, biggest, and most relished budget cuts was the elimination of CETA's public service employment component. The whole program came up for reauthorization in 1982, and the Administration vowed to let it expire. As hearings on manpower policy reform began before the Senate Labor and Human Resources Subcommittee on Employment and Productivity and the House Education and Labor Subcommittee on Employment Opportunities, there was widespread sentiment in favor of a wholesale restructuring of federal training policy.

The guiding theme of the reform discussions was increasing the private sector's role.

The guiding theme of the reform discussions was increasing the private sector's role. The Assistant Secretary of Labor, Albert Angrisani, responsible for drafting the Administration's position, lamented "seven years of mismanagement" and called for a "transition to a permanent private-sector driven training program" (Lanouette, 1982, p. 421). The final report by the full Senate Committee on Labor and Human Resources summarized the consensus that "it is the private sector which will employ the graduates of the training programs, and it is only those who will employ the graduates who can really define the kinds of training programs that are needed" (U.S. Congress, 97th). As the legislation defining CETA's successor developed, Madeline Hammings, an official of the Chamber of Commerce of the United States announced her satisfaction with the shape it was taking: "Where programs are designed to meet the objectives of the employer, they usually work. In the last 19 years we've never really linked a training program to the private sector. But this time, things could be really different" (Lanouette, 1982, p. 422).

The Job Training Partnership Act System

In fact, the private sector had been involved in training programs from the 1960s onward, albeit in different forms and to different degrees over the years. But JTPA made American manpower policy more consistently and explicitly "businesslike," in three broad ways. First, it stipulated that business representatives would control the local organizations that would actually implement programs. Second, it encouraged more reliance on private-sector providers of training, both in the classroom and, especially, on the job. Third, it mandated a far more results oriented, contractual approach to publicly funded manpower development.[2]

JTPA made American manpower policy more consistently and explicitly "businesslike."

Private Industry Councils (PICS) made up mostly of local business people had been formed in 1978 to oversee a small business-oriented pilot program within CETA. Under JTPA, these councils took on a far more central role. The legislation specified that each local training program would establish a governing board with a majority of business members, a private-sector chairman, and a minority of representatives from education, labor, community groups, and government agencies. PICS would "provide policy guidance for, and exercise oversight with respect to, activities under the job training plan . . . in partnership with . . . local government." The precise nature of this "partnership" was left open in the legislation, and its accompanying regulations

granted the roughly 600 local programs wide discretion (Public Law 97-300, Sec. 102, Sec. 103). The legislation barred virtually no plausible uses of funds, and specifically endorsed job counseling, placement assistance, remedial education, on-the-job training, literacy and English-language training, "employment-generating activities," "training programs tailored to the needs of specific industries and companies," "vocational awareness," and high school equivalency studies, among other approaches (Sec. 204).

Aside from the performance standards discussed below, JTPA presents local decisionmakers with two hard and fast requirements and a number of general exhortations. The first explicit requirement is that at least 40 percent of the money must be spent on training for youths ages 16 to 21 (Sec. 203 [b][1]).[5] The second requirement (a response to complaints about CETA's administrative costs) is that 70 percent of all funds allocated to local programs be spent on training (Sec. 108). No more than 15 percent can go for administration. If a local program enters a "performance-based" contract with training providers, *all* payments to the contractor count as training costs. This requirement both amplifies the incentive to use performance-based contracting (since most local programs find it hard to meet the administrative cost constraint) and encourages efforts to shift administrative functions—including, significantly, trainee recruitment and placement—to contractors. Other legislated criteria are ambiguous, loosely enforced, and sometimes contradictory.

Local JTPA programs generally do little training themselves, but delegate training duties to various outside organizations, including local schools and community-based organizations as well as proprietary schools and private firms. According to one study, two-thirds of local programs spent at least one-tenth of their training funds for on-the-job training contracts with private firms, while only half spent this much on contracts with public schools. For-profit training organizations are major providers for more local programs (39 percent) than are community colleges, the local employment service, or community-based organizations (Walker, *et al.*, 1985, pp. 23–28). JTPA has not precipitated a complete transition to for-profit providers of training: public schools and community groups continue to provide classroom training, counseling, work socialization courses, and other services. At the same time, in most local programs there has been a marked shift toward private suppliers, especially for on-the-job training. Even non-business organizations, moreover, have been affected by JTPA's sharpest organizational departure from CETA—a legislated, enforced emphasis on output-based measures of performance.

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JTPA represents a shift from process-based contracting with mostly public organizations to output-based contracting with mostly private organizations.

JTPA's Contractual Approach to Subsidized Training

JTPA represents a shift from process-based contracting with mostly public organizations to output-based contracting with mostly private organizations. This shift was quite deliberate. During the Congressional deliberations over CETA's successor, Senator Paula Hawkins argued that the proper federal role should be "an insistence that job training pro-

grams meet performance standards—not to dictate how such results should be accomplished." As JTPA took shape another of its architects, Senator Orrin Hatch, said that "the new system will be based on performance, not process" (Orfield, *et al.*, 1986, p. 51).[4] The central assumption governing the 1982 reforms was that bureaucratic, process-oriented manpower policy had failed, and that an outcome-oriented system of accountability would mean better results and greater efficiency. Under CETA, "service providers" were paid according to enrollment, the number of days trainees spent in class, certifications granted, and other input and process measures, assumed to lead to greater competence for trainees, higher rates of employment, and lower welfare enrollment. Under JTPA, providers would be compensated according to their success in achieving targeted placement rates, wage rates, cost-per-placement standards, and other outcome measures. This switch raises a crucial question: does JTPA's contractual structure accurately embody the social goals justifying subsidized training?

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The Central Role of Performance Standards

The legislation characterizes job training as "an investment in human capital," and directs the Secretary of Labor to develop "criteria for measuring the return on this investment" and to translate these criteria into operational standards which local programs must meet (Sec. 106).[5] Congress suggested standards based on increased employment, increased earnings, and lessened welfare dependency, and specified that the performance standards "shall include provisions governing . . . the base period prior to participation," and "a representative period after termination . . . that is a reasonable indicator" of the program's effect, as well as "cost-effective methods for obtaining such data as is necessary" to ascertain effectiveness (Sec. 106 [b][3]).

It is fairly easy to assess employment, earnings, and welfare status at any given point. It is a good deal harder to measure changes over time. And it is impossible. . .to confidently attribute such changes to subsidized occupational training.

This is a tall order. It is fairly easy to assess employment, earnings, and welfare status at any given point. It is a good deal harder to measure changes over time. And it is impossible, as the next section discusses, to confidently attribute such changes to subsidized occupational training, without information systems more elaborate and intrusive than a program advertised as lean and permissive could support. The measures actually established to hold local programs to account are much more limited. Congress' mandate to set standards for measuring the "return on investment in human capital" was translated by the Department of Labor into seven specific performance indicators. Each program year the Department issues national performance goals; Table 1 gives the standards for Program Years 1984 through 1988. (A program year runs from July of the calendar year through the following June.)

In principle, at least, the standards have teeth. Governors are authorized (within limits) to grant local programs adjustments from the national targets when demographic and economic circumstances warrant. But if a program fails to meet the standards for any one year, the governor is required to offer technical assistance to the troubled locality. If a program misses the mark for two years running, the governor must impose a reorganization plan, which means restructuring the PIC,

Table 1

JTPA Standards, Program Years 1984–1988

Performance Indicator	1984–86	National Standard 1986–88	1988–89 (Proposed)
(For Adults)			
Entered Employment Rate	55%	63%	68%
Cost per Entered Employment	$5,704	$4,374	$4.95
Average Wage at Placement	$4.91/hour	$4.91/hour	$4,500
Entered Employment Rate for Trainees on Welfare	39%	51%	56%
(For Youths)			
Entered Employment Rate	41%	43%	N/A
"Positive Termination" Rate	82%	75%	75%
Cost per Positive Termination	$4,900	$4,900	$4,900
Employment Enhancement Rate	N/A	N/A	39%
(Post-Program)			
Follow-up Employment Rate	N/A	N/A	60%
Welfare Follow-up Employment Rate	N/A	N/A	50%
Weeks Worked in Follow-up Period	N/A	N/A	8
Weekly Earnings of All Employed at Follow-up	N/A	N/A	$177

Sources: U.S. Department of Labor, 1986 and 1988a; Barnow and Constantine, 1988, p. 6; U.S. Department of Labor, 1988a, p. 14.

Additional standards have been proposed.

blacklisting offending contractors, or assigning authority for the program to a completely separate entity (Sec. 106 [h][1]).

Under CETA, evaluation had dealt far more with process, less with product (U.S. General Accounting Office, 1985c, p. 2).[7] The Department of Labor's assessment schedule allocated only 40 points out of 150 to performance measures, with much greater effort devoted to eligibility verification, equal opportunity compliance, and administration. In 1980, for example, 21 local CETA programs were cited for serious deficiencies. Only three of these citations had anything to do with actual training, as opposed to administration, and two of the three referred to procedural defects in the way the training was conducted (Taggart, 1981, pp. 250–251). Under JTPA, conversely, performance standards rule. Explicit, output-based goals harmonize with and reinforce the rhetorical shift towards low cost training oriented to private-sector jobs, as well as the organizational shift to business-dominated boards for setting policy and overseeing operations.

Explicit, output-based goals harmonize with and reinforce the rhetorical shift towards low cost training oriented to private-sector jobs, as well as the organizational shift to business-dominated boards for setting policy and overseeing operations.

It also may be pertinent that, in the words of an entrepreneur serving on the Tampa PIC, the "performance standards are ridiculously easy to meet" (Walker, *et al.*, 1986, p. 28). Table 2 summarizes the pattern of actual performance during JTPA's most recent two full years.

On a national level, the JTPA system consistently has exceeded the placement targets. Over 90 percent of the local programs sampled in a 1986 evaluation met or exceeded all placement and cost-per-placement

Table 2

JTPA Performance, 1986–1988

Indicator	Standard	Results	
		1986–87	1987–88
Adult			
Entered employment	63%	75%	76%
Average wage at placement	$4.91	$5.12	$5.25
Welfare entered employment	51%	66%	65%
Youth			
Entered employment	43%	51%	56%
"Positive termination"	75%	75%	77%

Source: U.S. Department of Labor, 1986, p. 16. U.S. Department of Labor, *Job Training Quarterly Survey*, April 1989, p. 11.

standards, without requiring adjustments (Walker, *et al.*, 1986, p. 23).

The cost-placement standards have themselves come under increasing attack, as the evidence has mounted that they offer perverse incentives: states that relied heavily on cost-standards to award funds to local programs served fewer welfare recipients and dropouts, and offered them fewer services.[8] Other independent studies indicate that, on average, training costs (per adult job placement and per positive termination for youth) beat the standard by around 40 percent (National Alliance of Businesses, 1986, Appendix F).

The cost-placement standards. . .offer perverse incentives: states that relied heavily on cost-standards to award funds to local programs served fewer welfare recipients and dropouts, and offered them fewer services.[8]

The "positive termination" category requires some explanation. The JTPA legislation and regulations cast job placement as the only legitimate outcome for adult trainees. For young people between 16 and 21, however, Congress directed that performance standards should count as successes not just job placement, but also returning to school, enrolling in apprenticeship or other training programs, enlisting in the Armed Forces, or achieving "employment competencies recognized by the private industry council." The separate youth job placement standard was retained to ensure that no more than half of the positive terminations would be "soft" successes, and this placement standard is easily met. Even with so broad a definition of success, fewer than half of sampled local programs met the target in early years (Sec. 106 [b][2]).[9]

Placement remains the polestar of JTPA. PIC members, local officials, and contractors by and large define their success in terms of getting eligible people placed in jobs. The most extensive study of JTPA's implementation found that 80 percent of public and private officials involved in the program cited "placement and cost performance" as key achievements (Walker, *et al.*, 1986, p. 27).[10] An official of the Illinois agency responsible for state-level oversight of JTPA has said that the performance standards are "the limit of our responsibility; other things are not in the law" (Orfield, *et al.*, 1986, p. 138). A major evaluation found that "almost without exception the sample sites accorded top priority to meeting the placement rate and unit-cost standards set forth by the Department of Labor" (Walker, *et al.*, 1986, p. 5).

Focusing on placement quickly changed the contractual arrange-

ments between program officials and the organizations that actually do the training. Holding local officials accountable for results has had the intent, and the effect, of inspiring a shift towards performance-based contracting. A study of local programs during the nine month launch period for JTPA (October 1983 to June 1984) found that by the end of the period 46 percent of all contracts were performance-based: payment was at least partially contingent on trainees finishing their programs and finding jobs (U.S. General Accounting Office, 1985b, pp. 43–44). By the first full year of operation, around two-thirds of all contracts were performance-based (Walker, *et al.*, 1986, p. 41). This transformation heightens the importance of the link between contractual mandates and the real dimensions of social value.

Holding local officials accountable for results has had the intent, and the effect, of inspiring a shift towards performance-based contracting.

Manpower Policy in Perspective

The JTPA system is founded on the notion that private contracting is a superior organizational arrangement for preparing disadvantaged citizens for more productive and rewarding economic roles. This seems like a plausible proposition, at first blush. But how well do the contractual provisions holding suppliers to account—the JTPA performance standards—reflect the actual value created and embodied in participants as they pass through the system? Addressing this question requires a closer look at the public and private stakes in human capital development.

Looming behind any discussion of manpower policy is the fact that, entirely aside from JTPA and related programs, the American economy makes massive investments in human capital. A Labor Department study has found that more than half of all American workers report taking some kind of occupational training to qualify for their current jobs, and about a third have upgraded their skills while on the job (U.S. Department of Labor, 1985). Federal, state, and local government budgets for human capital development—counting elementary, secondary, and higher education plus vocational and military training—totalled over $150 billion in 1980 (Taggart, 1981, pp. 6–7).

This transformation heightens the importance of the link between contractual mandates and the real dimensions of social value.

Private manpower investment includes individuals' tuition payments, plus the sums business spends to run its own training programs and to cover employees' tuition. Estimates of direct private spending on skill development are in the range of $30 billion to $40 billion per year. In addition, private investment includes the cost of on-the-job training, most of which—wasted materials, botched orders, wear and tear on equipment, extra supervision, missed sales, irritated customers and so on—are difficult to distinguish from regular production costs and so are seldom reported as human capital investments. Finally, private investments include all of the work that individuals do not perform and all of the income they do not collect *now* while they are in training to increase their production and income *later*. If on-the-job training and foregone income were counted as well, private investment in education and training would be at least as large as public investment. The total resources devoted to human capital development are roughly $300 billion per year, a figure comparable to total spending on medical care

or national defense.

Federal manpower programs account for only a minuscule fraction of this investment—perhaps one or two percent. Of the 11 million people estimated in 1983 to have taken steps to upgrade their skills since beginning their careers, only 375,000 got their training in government-sponsored programs. Indeed, the Labor Department's annual budget for training America's disadvantaged is only a little bigger than IBM's budget for training its employees.[11] In a workforce of around 100 million people, the tally of subsidized trainees has never been much more than a million per year. By comparison, a Rand study suggests that, at a minimum, 10 million workers each year get employer-sponsored training (Lillard and Tan, 1986, pp. 11–17).[12]

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JTPA deals with only a small, albeit possibly crucial part of the whole training picture. This fact only highlights the importance of the basic question: what should subsidized training *do*?

Arguments for collective financing of human capital development proceed from two quite different lines of reasoning. The first invokes the logic of market failure; the second invokes social solidarity.

Arguments for collective financing of human capital development proceed from two quite different lines of reasoning. The first invokes the logic of market failure; the second invokes social solidarity.

Market-Failure Arguments

The case for publicly financed basic education turns on external benefits: we are all better off when our fellow citizens are literate, schooled in the fundamentals of civics, and partake to some degree of our common culture. If education confers diffuse social benefits, society at large should pay part of the cost. The case for public financing of occupational training is less obvious. If training boosts productivity, it yields extra income for the worker, or extra profit for the employer, or both. Why, then, should the rest of us pay, instead of letting firms and employees handle training themselves? To a great extent, of course, this is how it works out. Individual and business spending on job training far exceeds public spending. But there is reason to fear that market arrangements, on their own, will result in too little human capital investment.

The market failure argument for public involvement in manpower development is rooted in the conceptual distinction between *general* and *specific* human capital. General human capital increases workers' productivity across a wide range of activities; examples include basic literacy, numeracy, or training in the fundamentals of microelectronics. Specific human capital investments increase productivity for a single activity; an example would be training in diagnosing and repairing a machine used by only one firm.

If markets worked perfectly and costlessly, workers would pay for investments in general human capital and employers would pay for investments in specific human capital. For an employer to train a worker in a strictly firm-specific skill is much the same as equipping him with a truck, drill press, or word processor to boost his productivity on the job. General training, by contrast, belongs to the worker. He carries it with him from job to job, commanding a higher wage by virtue of his greater productive powers. In the world of the economic

textbook, workers would invest in general human capital up to the point where the costs of additional training exceed further increases in productivity. The employer would follow a similar calculus for investments in specific human capital.

The classic problem with the employer's investment in specific training is that he could lose the opportunity to recoup his investment, if the now more valuable employee demands a higher wage and threatens to quit unless paid it. The employer will only make such investments if he can prevent the worker from expropriating the returns to enhanced productivity (Hashimoto and Yu, 1980; Becker, 1975, Chapter 2; Raudsepp, 1982, p. 52). Alternatively, if a worker invests in firm-specific training, an employer can expropriate the returns by refusing to increase wages in accord with the worker's increased productivity.

On the other hand, if *general* human capital boosts productivity across a range of economic activities (thus allowing workers to command premium wages), why would individuals fail to make the right level of investment in their own skills? One reason is that people lack perfect information about present and future alternatives. They may have difficulty choosing the right kind of training and the right sources. They risk facing a changed demand for skills, or lower returns to those skills than they anticipated.[13] An additional barrier to workers' investments is that it may be difficult to borrow money. If training must be financed out of savings or cuts in current consumption, many people may spend too little on it.

Despite these problems, there continues to be substantial private investment in education and training. Equally substantial public investments—primarily in formal education—can be seen as efforts to overcome those gaps in the market. But public spending for manpower development is frequently promoted on quite different grounds.

The classic problem with the employer's investment in specific training is that he could lose the opportunity to recoup his investment, if the now more valuable employee demands a higher wage and threatens to quit unless paid it.

Public spending on occupational training is justified as an instrument of anti-poverty policy: the poor are disproportionately untrained and unskilled, and providing skills is seen to be cheaper than supporting the poor in idleness.

Social Solidarity and Anti-Poverty Arguments

Public spending on occupational training is justified as an instrument of anti-poverty policy: the poor are disproportionately untrained and unskilled, and providing skills is seen to be cheaper than supporting the poor in idleness. In addition, productive skills may be treated as "merit goods"—that is, valuable aside from market measures of worth. While firms may choose indifferently among skilled labor, unskilled labor, machinery, and moving production overseas—setting their factor mix solely on the basis of costs and productivity—communities may not be indifferent. Citizens may prefer that their fellows be highly skilled and highly productive, and may value having much of the world's more sophisticated work taking place in the United States.

Policy Implications

These various motivations for a public role in job training imply different and sometimes inconsistent policy goals and tactics. Market-failure arguments suggest publicly financing *some* of the training costs for *most* workers, while anti-poverty arguments imply financing *most*

of the training costs for *some* workers.

A policy of *selective* intervention would use collective resources to incrementally alter private choices about the type or level of investment in occupational skills. However, anything short of complete, universal public financing presents the problem of determining what training would take place *without* intervention. JTPA specifies that program funds "shall only be used for activities which are in addition to those which would otherwise be available" (Sec. 141 [b]). This provision is undeniably sensible, but difficult to put into practice.

To the extent subsidized training is restricted to the poor, however, the cost can be limited. And when relatively little is currently spent on human capital development, investments made with public money are much more likely to represent net increases.

However, "the poor" are a diverse group. How are resources to be allocated among them, and on what criteria? As noted, JTPA directs that resources be concentrated on "those who can benefit from, and those most in need" of training, with no guidance on these two potentially discordant criteria other than calling for "equitable" treatment of different segments of the eligible population (Sec. 141 [a]).

Roughly the poorest one-fifth of the American population is eligible for subsidized training under JTPA. But most of the people who are counted among the poor at some point in their lives eventually escape poverty (Bane and Ellwood, 1985).[14] Large numbers of the poor increase their incomes each year—more in a boom year, fewer in recessions—by virtue of talent, hard work, good luck, marriage, or simple maturation. This does not soften the hard truth that many other poor people stay poor. But it does vastly complicate efforts to assess the effect of public training policies with an anti-poverty rationale.

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A manpower program for the disadvantaged creates value when, as a result of training, a participant's productivity and earnings exceed what they *would have been* absent any intervention.[15] In any random sample of poor Americans, at any given time a few are headed for prosperity, some for a modest but stable niche in the workforce, some for several years more of poverty and dependency, and some for deepening misery. We can easily observe a trainee's status "before" and "after" participation, but such comparisons conflate the whole range of influences determining a worker's prospects. The real effect of anti-poverty programs is a matter of the difference between each person's fate "with" and "without" the program. The apparent impact of a training program—the gain attributed to the typical trainee—depends in part on the value the program creates, on the actual production and earnings capacity it confers. But it also depends on the mix of participants: with a larger proportion of high-potential trainees, the program looks better; with a larger proportion of low-potential trainees, it looks worse, *no matter what* real but unobserved changes take place (or do not) in participants' prospects. The true impact of manpower policies, in other words, can be either more or less than meets the eye.[16]

Contracting Under Uncertainty for Manpower Development

Imagine a world far richer in information than our own. Performance-based evaluation of local JTPA programs, and performance-based contracts between local programs and independent training organizations would be easy to arrange and enforce. Imagine that the PIC, its governmental partners, and a set of competing contractors all shared complete and accurate information about each potential trainee: all concerned know what kinds of jobs he can expect to get, how productive he will be, and what wages he can command for the rest of his life, if his stock of human capital stays just as it is at that moment. Given any training regime, his new prospects for employment, production, and earnings are equally obvious at each point. Everyone can tap this wealth of information, and thus knows how much value training creates—and at what cost. The efficiency of different types of training, and alternative training organizations, can be readily compared. In such a world, it makes sense to let organizations bid on the basis of price, and compete to add productive value more efficiently to the people they train.

Suppose, though, that human capital is imperfectly observable. The greater the uncertainty about a participant's prospects, the less precisely can the value created in the course of the training be measured. The less measurable is value created, the less efficient contracting for manpower development will be. Contracting becomes still more complex if information is both imperfect *and* unevenly shared. In particular, if contractors know more than JTPA officials know about the human capital embodied in participants (before or after training), the contractual relationship may break down. Contractors may create the appearance of valuable training without actually producing real changes in the clients they serve.

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The Evidence from JTPA

Data Constraints on the Contractual Form

In the real world, knowledge is expensive. The federal government has opted to limit spending on information about JTPA. In the year between the law's passage and its implementation, the Labor Department designed an information system requiring local programs to report in some detail on *all* trainees' characteristics and employment experience before participation, on their status at the end of training, and at a 13-week follow-up interview. Moreover, samples of participants would be examined at greater length, before and after participation, and compared with a large control group for a finer estimate of the value added by training. However, the Office of Management and Budget protested that so elaborate a measurement system would be unduly expensive, and too intrusive for a program billed as an initiative in federalism (U.S. General Accounting Office, 1986b, pp. 5 and 7). The information system OMB finally allowed included only gross indicators of pre-training characteristics: male or female; white, black, Hispanic or other; six age categories; whether the trainee worked at all in the past half-year; whether he or she was on welfare and what kind (food stamps, AFDC, or other); whether handicapped or not; veteran or not; high school student, dropout, graduate, or post-high school (U.S. Department of Labor, 1986, Appendix B).[17] The plans for large-scale longitudinal studies using control groups—comparing participants at various stages with otherwise similar nonparticipants—were also scrapped. (See U.S. General Accounting Office, 1986b, pp. 21–23).[18]

In the real world, knowledge is expensive. The federal government has opted to limit spending on information about JTPA.

Thus, the Labor Department and outside researchers who rely on government data, were forced to build estimates of JTPA's effects on a flimsy statistical foundation.[19] "Before" information about JTPA participants was limited to sex, race, age category, and a few very gross socioeconomic characteristics, and "after" information to whether they ended up in a job at some point soon after training and how much that job paid, as reported by contractors and local programs according to quite open-minded definitions of "placement."

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Patterns of Participation

To be eligible for subsidized training under Title IIA, a citizen must have a family income below either of two alternative definitions of relative poverty, or be on some form of public assistance. He need not be unemployed, and there are no restrictions on either the degree or the duration of economic disadvantage. Baseline data from the 1980 Census identify 43 million Americans as disadvantaged by these criteria, including 29 million old enough for JTPA training (U.S. Department of Labor, unpublished).[20] Moreover, up to ten percent of participants with special "barriers to employment"—including the handicapped, older workers, veterans, alcoholics and drug addicts, ex-offenders, and "displaced homemakers"—may be exempted from any means test (Sec. 203 [a][2]). Estimates of the number of individuals eligible for training have ranged from 10 to 39 million; only about a million people per year have

participated in JTPA (GAO, 1989, p. 130). By what criteria are the few participants selected from among the many eligible? The legislation imposes one major constraint: While youths age 16 through 21 make up about one-fifth of the eligible population, Congress specified that *two-fifths* of the money should go for training youths (Sec. 203 [b][1]). Aside from earmarking 40 percent of the funds for youth, and exhort officials to serve welfare recipients, dropouts, and other subgroups "equitably," the law leaves selection of participants up to local programs officials and contractors.

The table below summarizes the overall pattern of participation in JTPA. The first column gives a breakdown of Title IIA participants by sex, race, welfare status, and education. The second column shows each group's representation in JTPA enrollment, relative to its proportion of the eligible population. (For example, Hispanics are 10 percent of actual enrollment, but more like 11 percent of the eligible population, so they are underrepresented by about 9 percent, relative to strictly proportional participation.)

Table 3

Share of Program Participants and Relative Representation, 1983–1986

Category	Share of trainees 1983–86	Relative representation
Male	47%	Over-represented by 9%
Female	53	Under-represented by 7%
White	54	Under-represented by 7%
Black	32.5	Over-represented by 30%
Hispanic	10	Under-represented by 29%
Welfare recipients	44.5	Under-represented by 5%
High school dropouts	26	Under-represented by 35%
High school graduates	57	Over-represented by 16%

Source: Calculated from Department of Labor November 1986 and unpublished data.

The GAO examined *changes* in representation from 1980 under CETA to 1984 under JTPA. The same groups under-represented in JTPA also generally suffered a drop in representation from CETA to JTPA. The proportion of high school dropouts fell 23 percent, while graduates rose 17 percent. The unemployed, women, and minorities all fell slightly—by two to four percent—as a fraction of total trainees, while whites, the employed or recently employed, and males increased somewhat (U.S. General Accounting Office, 1985c, pp. 10–13). In other words, the pattern of participation shifted towards the less disadvantaged, more employable fraction of the large and diverse pool of citizens eligible for JTPA training.

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ing candidates for training while weeding out the troubled and troublesome, the untalented, and the discouraged. The head of one agency reports that under JTPA his organization had changed its mission from "taking the tough cases, to becoming an efficient personnel office for local businesses" (Walker, *et al.*, 1986, p. 27). A study of 25 local programs found that PICs and their public-sector partners "have largely spurned the 'most in need' issue as a vague exhortation amidst seven clearly stated performance standards by which they are judged" (Walker, *et al.*, 1986, p. 38).[21]

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The performance-based contracts that predominate in JTPA, in which training organizations are paid mostly on the basis of the number of trainees who graduate or get jobs, rather than by enrollment figures, have meant that "service providers choose program participants very carefully" (Walker, *et al.*, 1986, p. 24). There is some scattered evidence of especially intense screening by proprietary vocational schools, where performance-based contracting interacts with the concentrated incentives of ownership to make low potential trainees particularly unattractive. A for-profit organization training bank tellers screened 118 applicants to fill 19 training slots, for example, and another proprietary school accepts one out of 25 applicants (Walker, *et al.*, 1985, p. 27).

Except in areas with very tight labor markets, most local programs expect applicants to take some initiative in seeking training, which tends to weed out the less motivated even before any formal screening occurs. Only about 18 percent of local programs have formal arrangements whereby schools, community groups, or social workers recruit people needing training, and about six percent report that they explicitly instruct contractors to recruit and train people from groups most in need of training. But nearly two-fifths make no provisions for countering the powerful systemic incentives to select the most "job-ready" applicants, and only a small minority have strict requirements to concentrate on those most in need (National Alliance of Businesses, 1986, pp. 54–55).[22]

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GAO compared those eligible for JTPA with a sample of JTPA participants, categorized by "job-readiness." (GAO, 1989, pp. 17–21). The most job-ready group had recent work experience and at least three of the following characteristics: they were high school graduates, were white, were not on welfare, and were not single mothers. The *least* job ready group did not have recent work experience, and had at least three of the following characteristics: they were high school dropouts, were on welfare, were Black or Hispanic, and were single mothers. An intermediate job-ready group may or may not have had recent work experience, but did not present the same constellation of extreme characteristics. GAO estimated that JTPA participants were better educated (less likely to be high school dropouts) than were those in the eligible population: approximately 47 percent of the eligible adult population were dropouts, compared to about 27 percent of JTPA recipients. Moreover, even among the less job ready, JTPA participants were still less likely to be dropouts (61 percent vs. 73 percent), minorities (83 percent vs. 86 percent), single parents (60 percent vs. 68 percent), or

AFDC recipients (66 percent vs. 77 percent) than were the comparable group in the eligible population (GAO, 1989, pp. 33–35).

Training specialist Michael E. Borus has identified some forty "personal variables" affecting labor market success. Some of these variables ("skills and abilities," "access to transportation,") can be readily altered by government programs. Some ("perceived limitations on ability," "attitude toward working,") can be changed only with difficulty. Others ("age," "intelligence level," "attitudes of other family members toward work") are largely or entirely resistant to intervention (Upjohn Institute, 1979). But training officials and contractors often will be able to *observe* such characteristics—through interviews, application forms, data-sharing with welfare and social agencies—even when they cannot *affect* them. We know that officials and contractors tend, on average, to screen on the basis of placement prospects *among* the gross categories on which we have data—dropouts, graduates, and so on. It seems reasonable to suspect that they also tend to screen *within* those categories, to the degree they can, on the basis of subtler characteristics that are not recorded and reported by the Labor Department.

Local JTPA programs have more detailed information about participants than does the Labor Department. Training contractors, in turn, have better information than do local officials. The performance standards give officials and contractors powerful incentives to select, from the universe of eligibles, those trainees most likely to succeed, with or without any real increment in human capital. Anecdotes, incentives, and the statistical data that exist all strongly suggest that the norm in JTPA is to recruit participants likely to fare relatively well in any event.

The significance for the broader issue—does JTPA's contractual system constrain agents to create value?—is that the pool of eligibles is large enough and diverse enough that painstaking screening alone goes far to explain the relatively impressive placement scores, independent of any real effects of training on participants' productivity and job prospects. Harvard Business School graduates tend to earn more, over the course of their careers, than the average for the population as a whole. If the Harvard Business School selected its students randomly, this would be clear evidence that sitting through two years of case studies increased business acumen and earning power. But students are not selected randomly. The screening process is sufficiently rigorous that the people selected for admission would *still* tend to earn somewhat more than the population average if they spent their two years in the Peace Corps, or learning to play the harp, instead of studying cases. It is impossible to distinguish conclusively between the value *added* by the professors and the value *identified* by the admissions office. A similar uncertainty complicates JTPA's contractual system of accountability.

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Patterns of Training

There are four broad types of services offered within JTPA: classroom instruction, on-the-job training, placement assistance, and work experience programs.[23] Table 4 displays, for each category, the share of

participants assigned to each program, the median days of participation, and the percentage of participants placed in jobs immediately after training. (The figures in Table 4 are for July 1985 through June 1986, but the pattern has been relatively steady throughout JTPA.) The most interesting pattern here is the *inverse* relationship between length of training and placement rates.

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Table 4

Participation By Type of Training, Length of Program and Placement Rate

Program	Share of enrollees	Median stay in days	Placement rate
Classroom training	37.5	126	54
On-the-job training	22.3	100	76
Job-search assistance	21.8	26	75
Work experience	7.5	136	42
Other	10.8	102	52

Source: U.S. Department of Labor, 1986, Statistical Appendix B, various tables. "Other services" includes transition counseling, pre-employment skill training, vocational or personal counseling, assessment services, as well as enrollees "placed in a holding status" (Appendix A, p. 7).

On-the-job training has the highest placement rate, with the second lowest length of participation. Job-search assistance scores only slightly lower on placement, and takes only a fourth as much time per participant. Classroom training takes more time and has a worse placement record, and work experience (short-term or part-time work designed to develop good work habits and basic work skills) is the lengthiest and, by the placement measure, the least effective program within JTPA.

The pattern of training changed with the transition from CETA's more bureaucratic structure to JTPA's more contractual structure.

The pattern of training changed with the transition from CETA's more bureaucratic structure to JTPA's more contractual structure. Table 5 illustrates a pronounced tilt toward the kinds of training that most reliably and expeditiously boost placement rates. (The four types of programs covered in the table account for about 63 percent of CETA's 1980 enrollment, and about 89 percent of JTPA's 1985 enrollment.)[24]

Table 5

Changes in Training Regimes, CETA to JTPA, with Placement Rates and Mean Duration of Training

	Change in enrollment 1980–1985	Placement rate 1985	Mean days of participation per placement
Work experience	−84%	42%	323
Classroom training	−19	54	233
On-the-job training	+80	76	131
Job-search assistance	+535	75	34

Sources: Taggart, 1981, p. 22; U.S. Department of Labor, 1986, Statistical Appendix B. The third column, mean days of participation per placement, is derived from the mean days of training per participant, the termination rate, and the placement rate.

Table 6 displays, for 1980 and 1985, the breakdown of on-the-job trainees by broad characteristics, the percent change for each group, and each group's placement rate relative to the overall placement rate for on-the-job training.

Table 6

Characteristics of On-the-Job Trainees

	CETA 1980	JTPA 1985	Change	Relative placement rate, 1985
Male	63	56	−11%	97%
Female	37	44	+19	103
White	60	65	+ 8	104
Black	26	22	−15	92
Hispanic	11	10	− 9	99
Under 22	33	30	− 9	90
22 or over	67	70	+ 5	106
Dropouts	33	25	−24	100
Graduates	65	72	+11	101

Sources: CETA figures from Taggart, 1981, p. 36; JTPA figures from U.S. Department of Labor, 1986, Statistical Appendix B.

The pattern of training in JTPA is strongly placement-driven.

In four of the five cases where a group's representation declined, that group had a lower than average placement rate from on-the-job training. In all four cases where a group's representation increased, the group's placement rate was higher than average.

The pattern is straightforward. The quicker and more reliably a type of training leads to placement, the greater the emphasis on that type of training. The assignment of trainees among programs accords with the imperative to maximize placement rates. In short, the evidence supports the proposition that the pattern of training in JTPA is strongly placement-driven. This is precisely what one would expect from the contractual arrangements of the JTPA system. This is what players in the system *say* they are doing. Local officials, contractors, and the legislators and federal officials who crafted the system would argue that this is the whole idea of moving from a bureaucratic, process-oriented manpower policy to a businesslike, output-oriented policy. JTPA works, in the sense that its structure of incentives animates and enforces the mandate "get people placed in jobs." The question is how closely this mandate reflects the real sources of social value: enhanced competence, higher wages, lesser welfare dependency, and greater long-term job stability.

Contractual Incompleteness and JTPA

The Ambiguity of "Placement"

Neither the JTPA legislation nor Labor Department regulations define "placement" with much precision. (In a much-ballyhooed 1988 reform, a trainee was required to keep his job for 30 days for a placement to count. Prior to that, a day on the job was usually enough.) Those states that have developed criteria more restrictive than "working for some time, in some job, at some point after training" have such varied standards that national compilations are very close to meaningless. In some cases, training contractors and local programs must document that a participant worked at least 60 hours over a two week period for the placement to count; in others, a telephone report of a starting date suffices. Graduates may be given two to six months to find a job before they are recorded as *not* placed. Participants who drop out at any point are generally not counted at all, which allows considerable scope for fudging the statistics. Training organizations routinely delay submitting paperwork on trainees until they have ascertained which of them have good job prospects lined up. By officially enrolling only the best bets, they prop up their reported placement rates (Orfield, *et al.*, 1986, p. 190; GAO, 1989, p. 30).

Neither the JTPA legislation nor Labor Department regulations define "placement" with much precision.

An audit conducted by the Office of the Inspector General between June 1986 and April 1987 found that of the approximately seven out of ten participants who got unsubsidized jobs following training, 58 percent stayed in their first job, 16 percent left and entered a second job, and 26 percent became unemployed within four months (U.S. Department of Labor, 1988a, pp. 15–16).[25] Over 70 percent of the participants who left their first job were employed 60 days or less (U.S. Department of Labor, 1988a, p. 4). These figures imply that less than half the JTPA participants got jobs and kept them longer than four months. Unlike the placement and cost standards, the wage standard has proven difficult to reach. Most performance standards have been stiffened over time as the ease of meeting them became apparent. The wage target, though, has risen by less than a penny a year, and in real terms fell 11 percent from 1984 to 1988. The legislation stipulates that only *unsubsidized* jobs count as placements, but there is no requirement that jobs must be *paid*, and some training organizations apparently park graduates in unpaid internships to boost placement figures (Blumenthal, 1987).

Those states that have developed criteria more restrictive than "working for some time, in some job, at some point after training" have such varied standards that national compilations are very close to meaningless.

When only immediate post-training placement is contractually enforced, organizations may be tempted to develop "training" programs of the sort described in a *Wall Street Journal* article: a trainee in a subsidized word-processing course reported that her first day's assignment was to prepare a resume and send out copies. Students were pressured from the start to find jobs early and leave the program in mid-stream (Blumenthal, 1987). So extreme a focus on placement, to the exclusion of human capital development, is doubtless not the norm. But since the JTPA information system has no long-term follow-ups and no provisions for comparing participants with similar non-participants, it is impossible to say with certainty how well the placement figures

measure value creation. There *is*, however, some suggestive evidence that reliance on short-term placement and wage rates can confuse short-term failures with long-term successes.

Placement as a Proxy

Michael Borus studied graduates of MDTA-era programs to assess the links between the short-run and long-run effects of training. In 1975, he interviewed 323 people who had signed up for various training programs in the Lansing area an average of four years previously. Borus used multiple regression analysis to explain post-program differences in earnings, employment, and welfare dependency between participants and non-participants, controlling for 24 separate variables such as education, race, sex, age, and pre-program employment and earnings (Borus, 1978). As a group, it turned out, participants subsequently worked and earned more, and collected less welfare, than did non-participants.[26] He discovered, however, that no short-term indicator served very well as a proxy for the long-run effects of participation.

Employment one month after training was a valid but weak proxy: it explained only about seven percent of long-run earnings gains, and had no significant link to long-run weeks worked per year, reduced welfare dependency, or other beneficial results. Whether or not a participant finished his training curriculum was a slightly better proxy than short-run job placement.[27] The hourly wage rate thirty days after training explained about ten percent of long-run earnings, and had a smaller, weaker link with weeks worked, but none with welfare dependency. The only very powerful proxy, Borus found, was being off welfare 30 days after training. This indicator explained half the variation in earnings.[28] It has no counterpart in JTPA. Borus concludes that using short-run indicators to assess the relative effectiveness of alternative training regimes may "yield allocation decisions that are little (if any) better than decisions made by flipping a coin."

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Using short-run indicators to assess the relative effectiveness of alternative training regimes may "yield allocation decisions that are little (if any) better than decisions made by flipping a coin."

Direct Placement Assistance

One Texas JTPA official has said that "a lot of what goes on is not training at all, but simply door opening" (Walker, *et al.*, 1986, p. 44). Job-search assistance programs—which account for about 15 percent of participants in JTPA—represent "door opening" in its purest form. The average program runs less than a month, with little or no pretense of skill development. Total enrollment in placement-assistance programs has increased fivefold in the transition from CETA to JTPA; six out of ten surveyed local programs reported increasing their emphasis on such programs between 1981 and 1984 (Walker, *et al.*, 1986, p. 44). Four-fifths of the participants in these programs get jobs when they finish. But the average starting wage is unimpressive. Most participants in job-search programs, moreover, previously held jobs without benefit of subsidized resume advice. Indeed, nearly half of them had worked during the six months before participation in JTPA (U.S. Department of Labor, 1986, Tables B-1 and B-26).

A research team from the National Academy of Science has collected,

summarized, and assessed data on several job placement programs run under CETA for young people. Three of the programs featured enough data on participants and comparable non-participants to support fairly conclusive judgments about effectiveness. Evaluations of two of the programs used comparison-group methods, in which the post-program experience of participants is compared with that of a group of similar people who underwent no training.[29] Graduates from the largest of the three programs studied had a 50 percent placement rate immediately after training. Follow-up interviews at 24 to 40 months, however, found no significant difference between the employment status of participants and the comparison group (National Research Council, 1985, p. 164). Similarly, the graduates of a smaller five-day coaching and job-search strategy program found jobs at nearly *double* the rate of the comparison group. But a 12-week follow-up study found only small, statistically insignificant benefits. The third program used the analytically superior but politically awkward control group method. The young people applying to the program were randomly assigned either to a participation group or to a control group of applicants who are denied participation in order to isolate the effect of the training. Six weeks after termination, 64 percent of participants were working, compared to 48 percent for controls. But again, within 36 weeks there was no significant difference in the two groups' employment status (National Research Council, 1985, p. 165).[30]

Placement assistance did tend to boost participants' short-run probability of landing a job, but did not have even a transitory effect on wage rates.

Overall, the research team found that placement assistance did tend to boost participants' short-run probability of landing a job, but did not have even a transitory effect on wage rates. Employed participants made the same wages as employed controls, which buttresses the proposition that such programs do little or nothing to build human capital (National Research Council, 1985, p. 163 and pp. 174–175). In short, the evidence from CETA indicates that participants in placement-assistance programs do get jobs, but not especially good jobs, and they tend to lose or leave them within a year or so, retaining no advantage when it comes to finding the *next* job.

Immediate and short-run results may also be weak measures of the relative effectiveness of different types of training.

Immediate and short-run results may also be weak measures of the *relative* effectiveness of different types of training. One large-scale study compared CETA participants with a matched sample of non-participants drawn from the Census Bureau's Current Population Survey. Table 7 shows the earnings gains, relative to untrained comparison groups, of graduates from two CETA sub-programs, classroom training and on-the-job training. The difference between the two groups is striking at the one-year follow up, with on-the-job trainees reporting earnings increases two and one-half times as large as those of classroom trainees. However, a year later, annual benefits had risen for classroom trainees and fallen for on-the-job trainees, and the apparent edge of on-the job training was down to 30 percent.

On-the-job training could *still* be superior, of course, depending on the subsequent pattern of benefits, on the pre-program characteristics of trainees, on the relative cost of each type of training, on whether on-the-job trainees displace other, similar people, and so on. This compari-

Table 7

Earnings Gains (Relative to Non-Participants) of 1976 Trainees

Type of training	Extra 1977 earnings	Extra 1978 earnings
Classroom	$347	$442
On-the-job	839	574

Source: Continuous Longitudinal Manpower Survey and Current Population Survey data compiled in Taggart, 1981, p. 57.

son is merely meant to show the peril of relying on short-run indicators as contractual devices in so complex an enterprise as manpower development.

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Classroom training covers a wide range of programs. In general, longer classroom programs have no better short-run placement scores than short ones, perhaps because they attract a different type of applicant. The average length of classroom training, accordingly, decreased by 40 percent in the transition from CETA to JTPA (Walker, *et al.*, 1986, p. 24). If the real value per week in the classroom drops off fairly rapidly—as does the gain in placement rates—this is a sound economy move to be credited to JTPA's output-oriented system. One training expert, however, has found evidence of "a very substantial gradient" in the relationship between the duration of classroom training and post-program earnings and employment gains (Taggart, 1981, p. 221).[51] But this gradient only shows up over time, as Table 8 shows. The extra gain develops well beyond the time horizon JTPA's contractual system covers.

Table 8

Employment Rates of CETA Classroom Trainees Graduating in Fiscal 1975

Length of training	Percent employed three months after training	Percent employed two years after training
Two months or less	44	55
More than two months	43	60
More than six months	46	65

Source: U.S. Department of Labor data reprinted in Taggart, 1981, pp. 221-222.

Performance Measures and Participant Assignments

Just as placement rates and other short-term indicators may be bad measures of overall program effects, or of the comparative impact of different types of training, so too they may send false signals about the relative benefits of a given type of training across categories of partici-

pants. Research from the CETA era suggests that the long-run benefit of on-the-job training comes largely from workplace socialization, not actual skill development, and that such experience is most useful to people who are weakly attached to the labor force. In other words, the "general" skills imparted are cultural and psychological rather than technical. Large-scale comparison group studies suggest that young people and minorities reap somewhat greater benefits from on-the-job training—presumably because fewer of them have ever held good jobs before—than do adults and whites (Westat, Inc., 1981). But whites and adults have higher placement rates. The imperative of post-program placement seems to dominate the logic of long-run benefits in JTPA: white participants are almost twice as likely as blacks to fill on-the-job training slots, and participants over 21 are almost twice as likely as those 21 and under to be assigned to on-the-job training. The same CETA evidence indicates that whites gain more than blacks from classroom training. But under JTPA, blacks are more likely to be assigned to the classroom.

The placement standards that are the principal mechanisms of accountability in JTPA are quite likely to lead the people entrusted with public duties and public funds to spurn the most valuable arrangements of resources and participants.

I am not arguing that those making allocation decisions in JTPA are perverse, or bigoted, or careless. It is not that PICs, local officials, and training contractors *disregard* long-run effects; they cannot *observe* long-run effects. The point here is that the short-run employment indicators are bad proxies in the enterprise of contracting for investments in human capital. The placement standards that are the principal mechanisms of accountability in JTPA are quite likely to lead the people entrusted with public duties and public funds to spurn the most valuable arrangements of resources and participants.

Special Contracting Problems in On-the-Job Training

The JTPA legislation expressly forbids subsidized employment, except for limited work-experience programs for young people (Sec. 108 [k] and Sec. 205 [d][3][B]). But it allows and in fact encourages local programs to pay up to half the wages of eligible workers undergoing training while working for profit-seeking firms (Sec. 203 [b][4]). On-the-job training accounts for nearly one-fourth of JTPA participants and one-third of the spending. Overall enrollment in on-the-job training increased 80 percent from 1980 to 1985, and three-fourths of surveyed local programs boosted their spending for on-the-job training in the transition from CETA to JTPA (Walker *et al.*, 1986, p. 44).

The intuitive appeal of assigning profit-making firms responsibility for delivering training is considerable. First, who knows the value of skills better than the people on the buyer's side of the labor market? As JTPA was being drafted, proponents stressed employer's privileged information about the market demand for specific skills.[12] Second, many firms already do a good deal of formal and informal training, and are already equipped with machines, material, and staff expertise. Third, and most generally, businesses are broadly thought to be inherently efficient. Organizations accustomed to facing competition and meeting a payroll, the logic goes, should be leaner, more tightly run,

and better able to deliver value for money than the public bureaucracies and community non-profits that dominated the delivery of training services under CETA.

There are three ways in which on-the-job training can create public value. First, an employer can endow eligible trainees with *general* skills. This is the idea behind apprenticeship programs in trades like construction or plumbing. Any training in general skills creates value the employer cannot appropriate. The non-appropriable value of portable skills is why someone (the trainee, the parents, the government) must pay for apprenticeship training, either directly or with a specified amount of low-wage labor. Conferring general skills through practice on the job is the only way in which employers create public value through *training*, strictly defined.

On-the-job training can create public value. . . . An employer can endow eligible trainees with general *skills.*

Second, on-the-job "training" can amount to subsidized work in disguise and still be valuable, under certain conditions. One critic of the more limited on-the-job training efforts under CETA argued that in many cases the subsidies amounted to "the simple purchase of a job for participants" (Taggart, 1981, p. 73). This does not *necessarily* signal waste. In general, if trainees learn only firm-specific skills no public value is created, since specific training yields little or no gain in outside employability or wages. But when the community is particularly anxious to improve the job prospects of a particular group of people it might make sense to encourage firms to hire members of that group. Suppose on-the-job training subsidies lead companies to hire people who would otherwise be jobless (or employed in less productive and lucrative jobs). Suppose, too, that these people do not simply displace other equally-disadvantaged workers who for one reason or another do not participate in the program. Then, while it is somewhat disingenuous to declare them "training" subsidies instead of temporary wage subsidies, the payments to employers could buy something of value to the community.

The third way in which training subsidies can create value, even without developing general human capital, is somewhat more subtle, and concerns the economics of information. Suppose productive potential cannot be fully observed. An employer cannot know for sure when a person comes looking for a job how intelligent, honest, diligent, adaptable, and so on she will turn out to be. Suppose, further, that members of certain groups—high school dropouts, say—tend *on average* to be bad bets. *Some* dropouts would make splendid employees, but the employer doesn't know which ones. He may thus avoid the whole group. This is bad for the employer, bad for the high-potential dropouts, and bad for society as a whole. Temporary subsidies for on-the-job "training" could alleviate this problem if they compensate the employer for the costs and risks of experimenting with classes of workers he would otherwise shun.

Subsidies for on-the-job training may create value if they lead to the development of general human capital.

In sum, subsidies for on-the-job training may create value if they lead to the development of general human capital, or if they increase the quantity or quality of jobs held by members of groups the community has resolved to favor, by subsidizing wages or screening costs. The

important point for JTPA's output-based system of accountability is that, in each instance, the interests of employers are in conflict with the interests of the community. The employer is better off training workers in strictly firm-specific skills. He is better off accepting wage or screening subsidies (packaged as on-the-job training subsidies) *without* departing from normal hiring patterns to take on less productive or more risky types of workers. Thus, if we want employers to *alter* their decisions in response to subsidies, we have two broad options. The first is to assume that integrity and public spirit will lead employers to select and train subsidized workers in a manner that creates public value, foreswearing the oppurtunity to collect extra profits. Most employers involved in subsidized training programs surely *are* honorable and public-spirited. But some are not. Moreover, the emphasis on performance standards, the competitive bidding for on-the-job training contracts, and the market rhetoric that characterize JTPA suggest that reliance on public-spirited employers is not the mechanism of accountability its architects had in mind.

The important point for JTPA's output-based system of accountability is that, in each instance, the interests of employers are in conflict with the interests of the community.

The second approach is a contractual framework that is complete enough, specific enough, and enforceable enough to ensure that on-the-job training subsidies buy real public benefits at an acceptable cost. JTPA stipulates that the temporary subsidies paid to firms hiring and training eligible workers "shall be deemed to be in compensation for the extraordinary costs associated with training participants . . . and in compensation for the costs associated with the lower productivity of such participants" (Section 108 [g]). Yet it is exceedingly difficult to ensure that subsidized trainees differ to any meaningful degree—in their initial characteristics or the training they receive—from unsubsidized employees.

Not only is the legislative contractual framework inadequate, but individual contracts with employers are often grossly deficient. The Office of the Inspector General found that 83 percent of the contracts in a representative sample—representing 52 percent of JTPA spending—failed to adequately protect public funds (U.S. Department of Labor, 1988b, p. 3).

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GAO also found that for all three "job-readiness" groups, a higher percentage of participants received OTJ training in lower skill occupations (such as food service worker, custodian, laborer, dishwasher) than in moderate or higher skill occupations (GAO, 1989, pp. 57–61). The average length of subsidized training for these not-too-demanding occupations was 529 hours (three months, based on a 40-hour week). Labor's Office of the Inspector General raised similar concerns, after they found that the amount of time claimed necessary to train a fast-food worker ranged from a low of 57 hours to a high of 417 hours. The direct costs for training a fast food worker ranged from $144 to $798—with an average of $464; costs for training a janitor ranged from $374 to $5,031 (U.S. Department of Labor, 1988a, p. 57).

It is impossible to say what proportion of on-the-job training subsidies under JTPA creates value, by any of the measures outlined above, and what proportion simply rewards employers for hiring essentially

the same kinds of workers, and training them in essentially the same way, as they would in any event. The Office of the Inspector General found that, "About 60 percent of the employers who receive subsidies to provide OJT training say that they would have hired the participants without the subsidy, and approximately the same percentage of employers actually retain the participants after the subsidies end" (U.S. Department of Labor, 1988a, p. 8).

Even if JTPA's information system were far more elaborate than it is, it is difficult to imagine any foolproof method for ascertaining, for each on-the-job training contract, what employers would have done without subsidies.[53] PIC members and others involved in JTPA fervently believe they are doing useful things when they line up on-the-job training slots, and the reasons for this belief are obvious: they see disadvantaged people seeking jobs, signing up for training, learning to do demonstrably useful things, and in seven cases out of ten, ending up with an unsubsidized job. They are less aware of similar outcomes, at other firms, at other times, that occur without public financing.[54] And in general, those scattered individuals who otherwise would have landed the job that instead went to subsidized trainees are never identified.

It is impossible to say what proportion of on-the-job training subsidies under JTPA creates value. . . and what proportion simply rewards employers for hiring essentially the same kinds of workers, and training them in essentially the same way, as they would in any event.

Conclusion: Incomplete Contracts and Covert Inefficiency

With few exceptions, the perception seems to be that to reward firms for training eligible workers in any skills whatever is, in itself, a valuable intervention in the labor market. Consider the perspective of one Pittsburgh entrepreneur involved in JTPA: "Just because a businessman has an on-the-job training contract and his two sons are his only employees, where's the conflict of interest? Is it wrong to upgrade the skills of your children?" (Bovard, 1986b, p. 13). Few officials or contractors, to be sure, are quite so unclear on the concept. But the problem is not nepotism or conflict of interest in this obvious sense. The problem is the general lack of attention to the delicate task of singling out for subsidies only *incremental* human capital investment. It is quite probable that the gentleman in Pittsburgh would have trained his sons without subsidies. It is less obvious, but equally true, that most businessmen in the United States find it in their interest to train people, including large numbers of JTPA-eligible people, without subsidies. Consider two more representative statements from official JTPA sources. One PIC chairmen has enthusiastically summarized his approach: "You want to involve small and medium-sized businesses in JTPA, because that's where the jobs are. Then they have to feel a direct financial benefit. Don't talk long-term stuff; help pay for their training costs now. That'll get them involved" (Walker, *et al.*, 1986, p. 25). The annual report published by Houston's PIC declares that its on-the-job training program is designed "for businesses that want to reduce labor costs and increase profits" (Blumenthal, 1987). Even if one makes allowances for the public relations function of such reports, this statement is rather starkly at odds with the logic of creating value through targeted subsidies for incremental training.

The problem is the general lack of attention to the delicate task of singling out for subsidies only incremental human capital investment.

The National Alliance of Business titled its 1986 study of JTPA *Is the*

Job Training Partnership Working? and concluded: "Several key facts indicate that the answer is a resounding 'Yes!' " The key facts, which the Alliance assembled from official statistics and an extensive survey of PIC members and local training officials are that two-thirds of the adult trainees found jobs, over six out of ten youths participating had some kind of positive outcome, and, on average, local programs met most of the performance standards (National Alliance of Businesses, 1986, p. 67). One local program's staff director offered a fairly typical perspective. "Our first job was to prove the JTPA isn't CETA," he said. "That means to be efficient, and avoid fraud and abuse. We've had no fraud and abuse. And our placement rates and costs beat the federal standards. That proves we're efficient" (Walker, *et al.*, 1986, p. 19).[55]

There can. . .be little doubt that JTPA does much less good than the raw statistics suggest and its proponents assert.

It proves nothing of the sort. There can be no doubt that JTPA does some good; it would be astonishing if the public and private partners, equipped with good intentions and almost $2 billion a year, did not do some good. But there can also be little doubt that JTPA does much less good than the raw statistics suggest and its proponents assert. The problem, at base, is a grossly underspecified contractual relationship. Most disadvantaged people work, most of the time. The local officials and contractors who implement JTPA are required only to select a small minority of the disadvantaged and get them placed in jobs. JTPA deals with around two or three percent of the poor each year. Over ten percent of the poor escape from poverty each year, most for reasons that have absolutely nothing to do with government manpower policy (Bane and Ellwood, 1985, p. 32).

There is little within the contractual structure of JTPA constraining local programs or training organizations to concentrate on people who would otherwise remain unemployed and impoverished.

The typical JTPA graduate ends up in a job paying just over half the average wage; most of the working poor move in and out of such jobs with dismal regularity, with or without government help. There is little within the contractual structure of JTPA constraining local programs or training organizations to concentrate on people who would otherwise remain unemployed and impoverished. There are powerful incentives to select trainees from among the minority of the eligible population who—for wholly separate reasons—have the best prospects.

This is not to imply that the contractual approach to subsidized human-capital development cannot work, but only that the contractual architecture of JTPA Title IIA falls far short of enforcing, or even acknowledging, the complex requirements for creating value through subsidized training. Interestingly, a separate piece of American manpower policy, the Job Corps, exemplifies a more realistic model of contracting with profit-seeking agents. The Job Corps was launched in 1964 as part of the Equal Opportunity Act, moved to the Department of Labor in 1969, incorporated as a title of CETA in 1973, and continues to be authorized as a title of JTPA, although it is administered separately (Taggart, 1981; National Research Council, 1985; O'Neill, 1973; Mallar, *et al.*, 1980; U.S. General Accounting Office, 1986a). Seriously disadvantaged young people are sent to residential centers for long-term, intensive remedial education and vocational training. About 70 percent of the Job Corps centers are managed under contract and of these, about

80 percent are run by for-profit companies (U.S. General Accounting Office, 1986a, p. 6; Taggart, 1981, p. 264). Companies bid competitively for two year management contracts, and there is some evidence the competition is serious. Incumbent firms lost out to challengers ten times between 1971 and 1980, and one study found "frequent changes in the staffs of particular centers, in response to poor performance and under threat of losing out in the next competition" (Taggart, 1981, p. 265). The key feature distinguishing the Job Corps from most JTPA programs is that the organizations responsible for *training* have no control over the *recruitment* of participants or subsequent *placement* efforts. These tasks are handled by volunteer groups, social agencies, unions, schools, and local employment offices (Mallar, *et al.*, 1980, pp. 8–9; Taggart, 1981, p. 263).

The key feature distinguishing the Job Corps from most JTPA programs is that the organizations responsible for* training *have no control over the* recruitment *of participants or subsequent* placement *efforts.

Unlike JTPA's local officials and training contractors, the companies running Job Corps centers cannot affect their measured performance by screening participants or by securing jobs for graduates. Far more than JTPA contractors, Job Corps contractors are constrained to compete on the basis of the changes they produce in the trainees left in their charge. Most studies indicate that this arrangement has been effective in concentrating the energies of private contractors on valuable human-capital development. The Job Corps serves a deeply troubled population, and graduates work and earn more, collect less welfare, and commit less crime than non-participants (National Research Council, 1985, p. 113; O'Neill, 1973, pp. 42–43; Mallar, *et al.*, 1980; U.S. General Accounting Office, 1986a).[56] But these benefits show up only in long-run assessments of participants and matched comparison groups. In the short run, trainees returning from Job Corps centers work and earn *less* than non-participants, as they adapt back to life at home; the benefits aren't measurable for six months or so, but they last for several years (National Research Council, 1985, pp. 112–116). Under JTPA's placement based system of assessment, Job Corps training would be counted as a wasteful failure, inferior to the most perfunctory job search assistance for the most mildly-disadvantaged clientele.

"Public versus private" thus does not exhaust the alternatives;* what kind *of private arrangement may matter greatly.

"Public versus private" thus does not exhaust the alternatives; *what kind* of private arrangement may matter greatly. The problem with the Job Training Partnership Act is not the involvement of private individuals and organizations, but rather the rickety arrangements for holding these agents to account. It is rather as if Medicaid physicians were presented with a population of patients suffering complaints ranging from tendonitis to brain tumors, asked to choose two or three percent for treatment, and paid on the basis of how many are still breathing when they leave the hospital. Many players in the JTPA system, public and private, are aware of the inherent tension between short-term performance measures and the unenforced imperative to create value.[57] Both critics and troubled officials recognize that JTPA generally concentrates on the most "job-ready" part of the eligible population. But charges of "cream-skimming" miss an important part of the problem. The tendency to avoid the hard cases is seen as lamentable on ethical grounds, and it is. But it also means that JTPA's real impact is far less

than advertised. There is no compelling evidence that the Job Training Partnership Act system, on balance, makes much difference for the pattern of employment, earnings, and productive capacity of the American workforce.

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Endnotes

[1] In real terms, the growth was much more modest—measured in 1972 dollars, the total budget went from around $4 billion in 1975 to around $6 billion in 1980.

[2] Another major change is an enlarged role for the states. In JTPA, unlike CETA, the link between local programs and the Labor Department is mediated by state governments. (The Labor Department's Employment and Training Administration (ETA) shrank by about two-thirds from fiscal 1981 to fiscal 1986 as its mission changed from administration to monitoring.) For a discussion of the shift from a federal to a state-based program, see U.S. General Accounting Office, 1985a.

[3] This is in addition to the summer jobs program and the Job Corps, youth programs funded under separate titles that are not discussed here.

[4] For a further discussion of JTPA's "performance driven" system of accountability "based on prescribed outcomes rather than on [CETA's] prescribed service descriptions," see Litow and Amlung, 1984, p. 55.

[5] In order to determine whether that investment has been productive, the Congress finds that:

(1) it is essential that criteria for measuring the return on this investment be developed; and

(2) the basic return on the investment is to be measured by the increased employment and earnings of the participants and the reductions in welfare dependency (Sec. 106).

[6] . . . [T]he first standards established by ETA were an estimate of how JTPA would perform based on the experience from CETA. The first seven standards were established for Program Years (PY) 1984 and 1985 . . . The seven original elements remained unchanged, but the standards were revised for PYs 1986 and 1987.

Beginning in PY 1986, ETA began collecting data with the intent of establishing additional performance standards in Program Year 1988 to include post-program outcomes and welfare reduction. In December 1987, ETA published proposed standards for PY 1988 in the Federal Register (U.S. Department of Labor, 1988a, p. 13).

[7] Performance indicators were introduced in CETA, mostly in its later years, but the GAO found they were never "fully implemented or required," unlike under JTPA.

[8] "The JTPA legislation mandates that cost standards be included as Federal performance standards. Both the quantitative and qualitative

results, however, indicate that the cost standards had the most unintended effects and were the least comparably measured of all the Federal standards. There were unintended effects on both clients and services: states that placed a high weight on the cost standard lead SDAs to serve fewer welfare recipients and dropouts; in our case study sample, some SDAs concerned about exceeding their cost standards designed short-term, less extensive services" (Dickinson and West, 1989, pp. 23–25).

[9] "Competency certification" programs for youths include everything from instruction in labor market trends and technical training to a variety of socialization, "non-verbal communication," and attitude-improving exercises. It is somewhat unfair to characterize "positive termination" as so hopelessly broad a category that it validates as a success, in James Bovard's words, "anything short of suicide" (1986a). But at the same time, it is impossible to assess how much value these certifications actually represent, or to estimate what fraction of "positive terminations" represent such certification; a Labor Department initiative to define and measure competency certification was quashed by the Office of Management and Budget as unduly intrusive (U.S. General Accounting Office, 1987, p. 18 and pp. 57–60). The chief result of the widespread failure to meet positive termination standards was the Department of Labor's decision to lower the standard (to 75 percent) for the program year beginning July 1986.

[10] While nearly as many cited improved management practices, a better public image for subsidized training, and expanded private sector participation, only eight percent reported major impacts on local social problems.

[11] IBM spends over $1 billion a year on employee training (Seller, 1988, p. 142), while JTPA IIA spending for training is on the order of $1.5 billion.

[12] Specifically, Lillard and Tan estimate—based on three survey series running from 1967 to 1980—that over a one- to two-year period, around a quarter of young men and career women got some training along with a smaller proportion (10 to 20 percent) of women with weak attachments to the labor force and 11 to 12 percent of disadvantaged workers.

[13] The same can be said, of course, about people contemplating investments in real estate or machinery. But investors in physical assets can spread that risk by selling shares in the undertaking; human capital investments often afford much more limited opportunity for diversification (Lehvari and Weiss, 1974, p. 950). There may be a further tendency for under-investment if workers cannot appropriate the full return from general human capital. If the productivity gains

from training are realized primarily through collaboration among workers, highly-skilled members of productive teams may confer benefits on other members which are not reflected in higher wages (Schultz, 1962, p. 8).

[14] The precise pattern is significant: while about half of the people counted below the poverty line *at any one time* are long-term poor, most of the people who experience poverty *at some point in their lives* will escape within a few years, and a substantial fraction of the poverty population consists of the transitory poor.

[15] This is strictly true only under full employment; if any non-participant loses a job to a participant, the waste due to his unemployment must be netted out.

[16] For a useful discussion of the difference between program impacts and program outcomes, see GAO, 1989, pp. 23–24. Briefly, a study of program impact attempts to measure the difference between the employment status and wages participants would have achieved through JTPA, and what they would have achieved on their own, having never entered the program. Experimental designs using random assignment to a treatment or a control group are one good way to assess the true impact of programs. Program outcome studies, according to GAO, simply measure participants employment status (whether employed or not, and at what skill level), wage levels, and other possible indicators at program termination. GAO states, "What cannot be measured, however, is what portion of the program outcome is due to JTPA services as opposed to other factors, such as the condition of the economy, selectivity on the part of the local programs, or unmeasured participant qualities and characteristics such as motivation (GAO, 1989, p. 24)."

[17] Aside from "economically disadvantaged," which most participants must be by law, and "unemployment compensation claimant or not," which conveys ambiguous information, this list exhausts the information collected about participants at the national level.

[18] Early in 1986, the Labor Department proposed amending the performance standards to include data on participants' employments three months after termination. Again, OMB resisted requiring local programs to assess participants' status three months out. However, beginning in program year (PY) 1986, states and SDAs began to collect this information. In PY 1988, DOL added four postprogram measures as described above in Table 1: the employment for adults 13 weeks after termination; the percentage of adults receiving welfare at enrollment who are employed 13 weeks after termination; the average number of weeks worked in the 13-week period; and the average weekly earnings of employed adults after 13 weeks (Dickinson and West, 1989a, p. 2).

[19] As noted, states and local programs are free to collect and use data beyond what the Labor Department requires, of course, and some do. At the local level, however, follow-up and evaluation is still limited by the 15 percent ceiling on administrative costs.

[20] The 1980 Census remains the basic data source and efforts at targeting funding to localities still are based in large part on 1980 data.

[21] Local programs have shown little resistance to the legislated ceilings on support payments to trainees, prompting several observers to conclude that an applicant's need for income support signals poor employment prospects, and thus is a useful variable for screening out low-potential members of the eligible population. While state offices have granted almost all requests for easing the constraints on support payments, only one in fifteen local programs studied by the General Accounting Office sought waivers from the ceilings (U.S. General Accounting Office, 1985c, p. 15).

[22] The Alliance draws somewhat different conclusions from the data. A recent GAO study states:

> Early implementation reports, more recent press reports, and the observations of employment and training practitioners have focused on the issue of creaming and speculated on the extent to which it was occurring. The results have ranged widely—some concluding that creaming was occurring on a widespread basis, while others concluded that it was not a significant problem. The controversy still exists and . . . will continue primarily because of the lack of sufficient data to confirm or deny its existence or determine its extent (GAO, 1989, p. 12).

[23] Some studies cite five categories; they break out occupational classroom training from basic education (See GAO, 1989, p. 26).

[24] The tabulation counts only Title IIA and the corresponding parts of CETA. The remainder for CETA is mostly public service employment and youth transition services; the remainder for JTPA is "other." Whatever this pattern suggests about the dominance of placement goals in JTPA, incidentally, there is little reason to lament the cutback in work-experience programs. There is no evidence that CETA work-experience participants benefited much, and some evidence they were worse off after participation (Taggart, 1981, pp. 128–130; National Research Council, Chapter 7).

[25] "The Office of Inspector General (OIG) conducted nationwide program results audit to determine whether the program was realizing the results envisioned by Congress. In doing this, OIG (1) assessed the adequacy of ETA's system for measuring effectiveness,

(2) determined the extent to which JTPA achieves a desired level of program results, and (3) identified factors inhibiting satisfactory performance.

The audit was designed to review training and related services funded under Title IIA of JTPA. A statistical sample of 58 service delivery areas (SDAs), which represented 65 sample units, was selected in order to produce a nationwide projection of JTPA participant training and services. Field work took place between June 1986 and April 1987, with approximately one-third each of the 58 sites beginning in June, September, and December.

At each SDA, we selected a statistical sample of 50 participants who left JTPA Title IIA funded training and/or services within 90 days of the beginning of field work. Information on each of these former participants was gathered from: Participant records; participant interviews; service provider contracts and related documents associated with participants; employer training facility confirmations; state Employment Security Agency benefit history records; state welfare records.

The data collected was projected statistically to represent program activities nationwide" (U.S. Department of Labor, 1988a, pp. 15–16).

[26] Table 2, p. 8. The mean estimated difference for 1974 earnings was $662, weeks employed 8.25, and welfare received a negative $650, all significant at the .001 level.

[27] Table 3, p. 11. Program completion explained eight percent of earnings differences four years after training. Both proxies significant at .001. Program completion, of course, is more likely a proxy for participant characteristics than program characteristics.

[28] Borus found no real improvement in using three-month rather than one-month placement or wage measures; most proposals to tighten up JTPA call for follow-ups at 13 weeks or so. See notes 11 and 14, pp. 10 and 13.

[29] The two groups may differ on some significant unmeasured dimension that biases the comparison—for one thing, *something* led participants to sign up for the program—but this method gives a better fix on value-added than simple post-program data on participants. Unless the ignored variable is something like being ordered by a judge to enter a training program instead of going to jail—which happens sometimes, but probably not routinely—comparing participants and non-participants will generally bias results in the direction of over-estimating a program's effect.

[30] The evaluation of a fourth placement program for out-ofschool youth showed the same basic pattern, but was methodologically flawed. Studies of three comparable programs for youths still in

school found that one had no effect on placement, while the other two had initially-significant effects that decayed rapidly over time.

[51] For an extensive analysis of the long-run effects of different forms of training—and some evidence hinting at the long-run superiority of classroom training—see Card and Sullivan, 1988, p. 503.

[52] A study by the Rand Corporation found that the greater the rate of technological change, the more important is in-house training (Lillard and Tan, p. 67).

[53] Local programs frequently focus their on-the-job training resources on individual firms or industries that have always drawn many of their workers from among the moderately disadvantaged, and almost certainly would continue to do so without special inducements from the government (Walker, *et al.*, 1986, p. 54; Blumenthal, 1987; Bovard, 1986ab; Orfield, *et al.*, 1986, p. 12).

[54] Job training programs (that do *not* contain provisions to create public-sector jobs) are most effective in an expanding economy and in expanding industries, where there is less likelihood that newly trained workers will displace existing workers.

[55] On the fraud issue, incidentally, the General Accounting Office found that most fraud under CETA was perpetrated by contractors in on-the-job and classroom training programs, rather than by public-service employees or others in programs unique to CETA. There is little reason for confidence, thus, that JTPA will end up as a significantly cleaner program than CETA (U.S. General Accounting Office, 1984).

[56] Taggart concludes that although "there is no magic in private sector management *per se*, competitive contracting assures options in the case of poor performance and some incentives to maintain the performance of staff" (p. 266).

[57] A Chicago official: "The intent of the legislation is fine because it gets away from make-work toward more relevant training. But we are not serving who we want to serve—the hard-core unemployed. We have to screen them out because of placement pressures and performance contracting" (Orfield, *et al.*, 1986, p. 168). A Contra Costa, California, official: "Performance-based contracting leaves us no alternative but to avoid the high risk clients" (Walker, *et al.*, 1986, p. 38). John Roark, head of the Macon County Employment and Training Administration: "The people that we were proud to serve under CETA, we do not serve any longer, and we probably will never serve again. People must have skills, proper behavior, and education, or they won't be eligible" (Orfield, *et al.*, 1986, p. 132).

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